

## **A PROPOSAL TO IMPROVE BUSINESS PERFORMANCE OF CV SERUNI SNACK THROUGH BETTER PRODUCTION METHOD AND EMPLOYEE ENGAGEMENT**

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*Abstract— Snack industry has a rapid growth today. One industry that is involved in snack industry is CV Seruni Snack. CV Seruni Snack is a producer of Palembang Crackers. Last several months ago, CV Seruni Snack faced some problem. One symptom that emerge from the problems encountered by CV Seruni Snack is there are a lot of employees who resigned in recent months. From the interview, it was found that most of the employees have a low engagement level. This low engagement level caused by two things, that are inadequate salary and lack of business owner's attention. The company itself cannot provide an adequate wages to their employees because of the small profits that it got from the Palembang Crackers production activity. This paper propose the solution to overcome the problems of CV Seruni Snack from two sides, that are operational and human resource management. From the operational side, improvement of the production method is proposed to increase the effectivity and the efficiency of the production process so the profit will increase. From human resource management side, this paper propose the implementation of piece rate wage system, leadership practices according to Kouzes and Posner, and job rotation.*

*Key words: engagement, piece rate wage system, leadership practices*

### **1. Introduction**

One of the rapidly growing industry at this time is snack industry. Snack industry has a significant growth over time. It can be seen from the national industry policy the Ministry of Industry Republic of Indonesia which include snack industry as one of 35 priority industry cluster development roadmap (kemenperin.go.id, 2012). The population of Indonesia's approximately 230 million people, is a huge market potential for this business (Kanjaya, M. and Susilo, Y., 2010: 9).

CV Seruni Snack is one of the companies that involved in the snack industry. One of the mainstay product is Palembang Crackers that manufactured in it's own factory. CV Seruni Snack also acts as a distributor of many snacks factory in Indonesia. CV Seruni Snack is a company that involve in snack industry. The company acts as a producer and supplier of snacks. CV Seruni Snack founded by Mohammad Rukmina Saleh in 2001. Initially, Mohammad Rukmina Saleh just act as sales of a Palembang Cracker factory. Because of his perseverance in business, his business can grew rapidly.

In 2004, Mohammad Rukmina Saleh founded a Palembang Crackers factory with five employees in Kecamatan Cicalengka Kabupaten Bandung. At its inception, the factory was only fried raw crackers that taken from other factories. Starting in 2005, the factory started producing Palembang Crackers and took all of the business line from raw materials processing to marketing and product distribution. CV Seruni Snack operate in snack industry. The scope of the business of this company is a manufacturer and distributor of snacks. Types of snacks that are made in the company's factory itself is Palembang Crackers. CV Seruni Snack sells its products in two ways: selling ready to eat Palembang Crackers and raw dry Palembang Crackers called babangi. This paper only examined the company as the manufacturer of Palembang Crackers, not as a snack distributor. The production process of Palembang Crackers can be seen in appendix 1. The payroll system that applied in this company is

pay for position and seniority. The calculation of the payroll is daily. But despite the employee's salary is calculated per day, the payment of salaries conducted once a week on Saturdays.

In recent months, CV Seruni Snack encounter declining production volumes and profits. The decrease of production volume and profitability of this company began in August 2012. The main cause of decline in production volume and profit is there are a lot of number of employees who are resigned. From August to December 2012, ten employees were resigned. Employees who were resigned also did not explain why they were resigned. The number of the employees of course has a direct impact on production volumes. With the fewer number of employees, the total production was declined resulting in the decreased of profits. Graph of the amount of production per week in the period September until December 2012 can be seen in appendix 2.

From the interview, it was found that most of the employees have the low engagement level to the company. Lack of the engagement level is influenced by several factors such as inadequate wages and lack of attention from the business owner. The company itself can not provide an adequate wages to their employees because of the small profits that it got from the Palembang Crackers production activity. The small profits that the company got also compounded by the number of employees who resigned and make the profit smaller. So if there is no immediate action, the company will encounter a continues losses.

The company needs some immediate actions to improve the system in CV Seruni Snack. The goals to be achieved in this research is to formulate a solution to improve the business by increasing employee engagement to the company in terms of wages and attention of the business owner. The change in the production process is proposed in this paper so the company can increase the salary of the employees.

## **Research Method**

The research method used in this research is a case study. The case study research method learn intensively about the current condition background and the interaction of an object (Suryabrata, 2008: 38). Data collection techniques used in this research is the observation directly to the company, interviewing competent parties, and literature by collecting data from books or articles that has relevance to this study.

The guide for interview questions is Gallup's 12 Questions to measure the level of employee engagement. But there are some modifications to the question so that the question can be more easily understood because most of the educational background of CV Seruni Snack's employees are elementary and junior high school.

The Gallup Questions are questions that Gallup has consistently found measure the aspects of employee engagement that link to business outcomes. Gallup tested thousands of questions on millions of employees to find the right questions with the exact wording that provided the highest correlation to business results most companies regularly measure — profitability, productivity, turnover, and safety (SAIC, 2011: 2).

Buckingham and Coffman (1999: 42-45) divided these 12 questions into 4 levels that represent the 4 levels of employee engagement. These levels are what do I get?, what do I give?, do I belong?, and how can we grow?.

### The Congregational Engagement Hierarchy



Figure 1 Gallup Employee Engagement

Figure 1 describe the level of the employees' engagement based on the Gallup Organization. Every engagement level can be represented by some questions. If the employees answer all of the questions in certain level positively, then that employee has pass that level of engagement. The first level of engagement consists of basic questions that identified the equipment, material, and knowledge that the employees need to do their job. If the the employees cannot pass the first level of engagement, it means that the employees' engagement to the company is very bad because even they do not know how they do their job. The higher level that the employees can pass by answer every questions in that certain level positively, the higher engagement that the employees have to the company.

## 2. Business Issues Exploration

Figure 2 describe about the root cause of the problem. The problems encountered by CV Seruni Snack was started from the symptoms that emerge, that is high turnover of employees in the company. Based on interviews with employees CV Seruni Snack, it is known that the employees have a low engagement level to the company. Most employees have a low engagement level to the company because of two factors: lack of benefit that received by the employee and supervisor attention.

The Company can not give more benefit to the employees because of small profits from the production of Palembang Crackers. Based on the calculation of cost of goods sold, the company's profit margin is only 3.04% every four days of production. The owner of the company admitted that the profits from the Palembang Crackers production process is not so big. But he did not want to close the plant because the Palembang Crackers plant has a very important meaning for the owner of the company. The plant was a start career point of the owner as a success entrepreneur.

The small profits of Palembang Cracker factory has a direct relation with production process. Several part in the production process is not carried out effectively and efficiently. For an example is the crackers shaping section. Crackers shaping was done manually one by one. The shaping process is a bottleneck for the production process that cause just small volume of Palembang Crackers were produced per day.

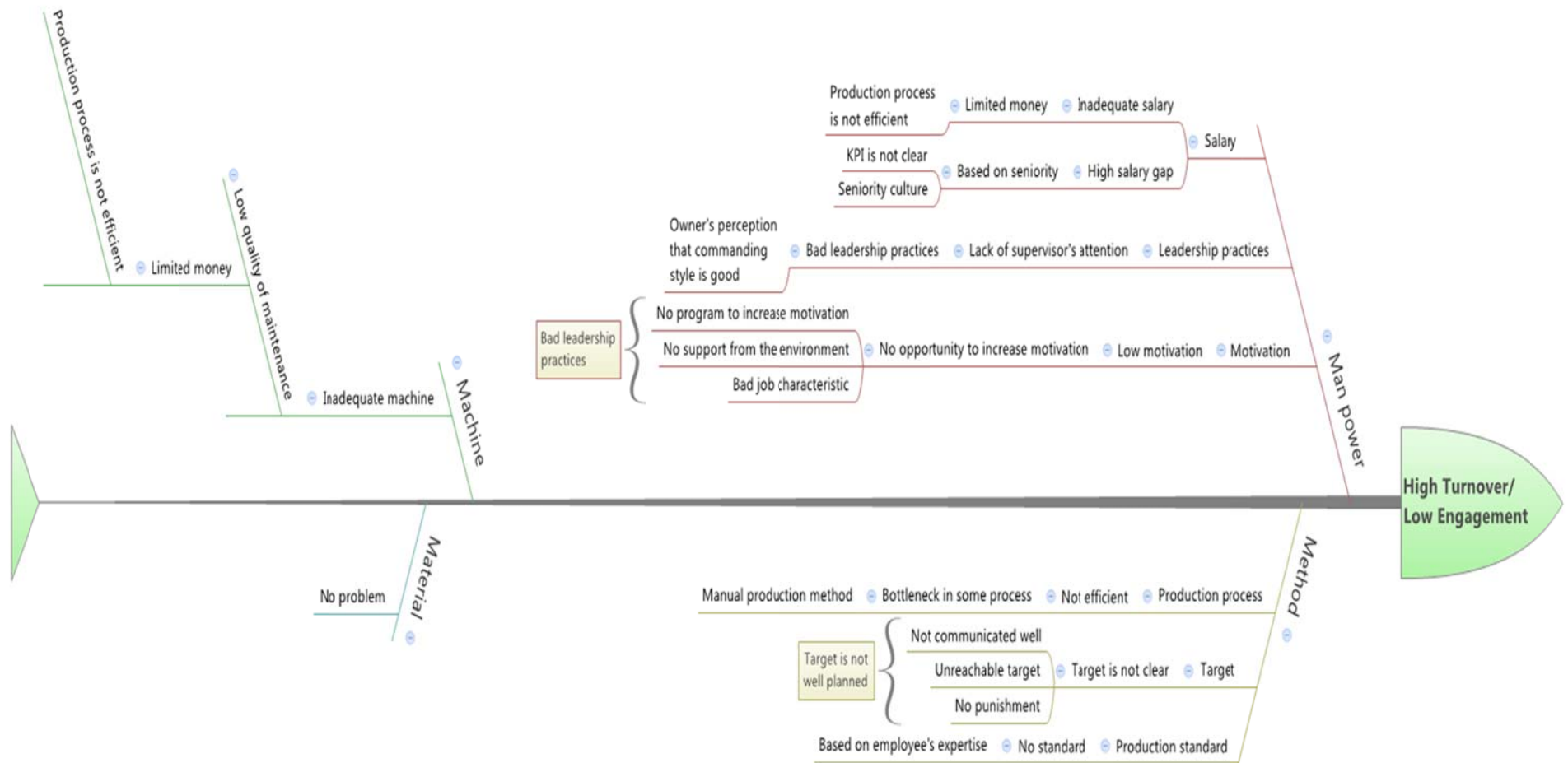


Figure 2 Fish Bone Diagram

The bottleneck can be identified by the 7 wastes model. These 7 wastes are (Ohno, T., 1988: 191):

Overproduction: producing more than and/or ahead of demand.

Waiting: people may be waiting for parts or instructions, mostly they are waiting for one another.

Unnecessary transportation: unnecessary transport of materials, work in progress, and finished goods.

Overprocessing: doing more work than is necessary.

Inventory: holding more stock than is required.

Unnecessary movement: unnecessary movement of equipment and people

Defective products: producing defective parts or products results in rework and scrap and invariably adds significantly to manufacturing costs.

In CV Seruni Snack, the waste that exist are waiting and defective products. The waste of time in waiting is caused by the bottleneck in the shaping dough process. Waste in defective products caused by the product that produce when the employee in the making dough process cannot working and another employees cannot make a good dough. For the process of making dough, CV Seruni Snack has no standard in composition and raw material in making the Palembang Crackers dough. Consequently, if the employees who are working in the making of dough section can not work, other employees are difficult to replace him. Not infrequently the factory closed due to employees who are working in the making of dough can not work. If the plant keep the production activity on that day, a lot of products would fail because employees who were previously not in the position of the dough-making process can not make a good dough.

CV Seruni Snack actually has a minimum production target per day, but the production targets was never reached over the past few years. The business owner was never questioned about it so that most of the employees perceive the target policy has been eliminated. In these circumstances, the employee does not have the right direction to achieve. They will tend to be lounge and do not have a sense of responsibility and engagement level towards work (Berliana, R., 2012). The employees who work without a target are more likely to get bored than the employees who work with specific targets to be achieved (Miner, J., 2002: 243).

The payment system that implemented in CV Seruni Snack is based on positions. The section that has a heavier workload has a larger salary. However, seniority elements also involved in the payment system. The employee's performance assessed directly by the owners of the company to determine the amount of incentives that they will receive. But there are only a some positions that are given appropriate with the government minimum salary policy which is the administration and technicians. Beside the administrative and technicians, the salary that they received were below the government minimum salary policy.

The attitude of business owner towards employees also complained by most of employees lately. Most of employees consider that the owner of the company is lack of attention and the type of leadership is not democratic. The business owner looks likely to keep his authority as a leader and limit the communication with employees. The owner's attitude like this make the employees not comfortable working in this company. This happens because they do not dare to express their opinion. They do not dare to say what they want to support their work so they tend to feel not getting an adequate recognition from the company.

### **3. Business Solution**

One way to increase the level of employee engagement is by giving an adequate salary. But the company cannot give an adequate salary to the employees because the profit that the company get from the Palembang Crackers production activity is small. To increase the profit of the company, some changes are needed in the operational side. Beside from the operational side, change should also implemented in the human resource management.

### Operational

From operational side there are three solutions that possible to be implemented in CV Seruni Snack. That are improvement in production method, make a production target, and make a standard of production. One alternative that may be applied at the plant to improve the effectiveness of the production is change the equipment, one of which is the mold. Shaping the layer of dough into a circle shape is a process that requires human resources most because each employee shape it one by one. The new shaping tool can be seen in figure 3.

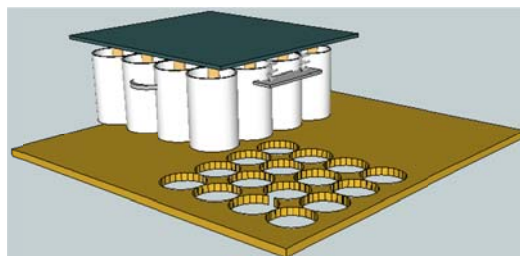


Figure 3 New Shaping Tool

With the implementation of new shaping tools, the plant's production capacity can be increased more than threefold. The number of employees required in the process of making babangi is only eight people, one manpower fewer than the current condition. One employee from the process that produce babangi can be moved to the packaging department. As a result, the company's profits will increase which was originally only 3.04% per 800 kilograms of babangi to 12.24% per 800 kilograms of babangi.

Working capital that the company should be incurred to run the Palembang Cracker factory on the current conditions is approximately Rp 71,655,902.5 per month. Assume that the plant operates for 26 days in a single month. If the new shaping tool was successfully implemented, the plant production capacity will increase and the working capital will also increase to approximately Rp 265,251,948 per month. So the working capital that must be added to the company is about Rp 193,596,045.5 per month. If it assumed that the company borrow the money from banks for working capital, the company needs to spend money about to Rp 2,177,956 per month as a loans interest rate with the amount of interest rate 13.5% per year, the credit period of one year, and a flat rate calculation. The effects that emerge by implementing the recommended production process improvement shown in appendix 3.

CV Seruni Snack already has a production target per day before. But the target was never achieved lately and the owner of the company did not questioned about it so most of the employees perceive that the minimum target policy has been eliminated. Companies should re-socialized the minimum production targets per day because it has a close relationship with the remuneration system that is recommended in this study.

The minimum production target per day will be used in the compensation system. As already counted in the calculation of new cost of goods sold after the new shaping tool was successfully implemented, the minimum production target per day for the production process of babangi is 692 kilograms babangi. If the employee can produce more than that, then the excess will be counted as a basis for incentives. The amount of the incentive will be calculated from the amount of production surplus that produced by employees. For the frying process and packaging, the minimum targets of babangi that should be fried and should be packaged is 800 kilograms of babangi. But the production volume of the babangi per day does not reach 800 kilograms. So every seven days worked in the frying process of crackers, the employees who are in positions of crackers frying process and packaging will be placed on the other snack frying and packaging process.

The production Standard is the next important factor that should be implemented in CV Seruni Snack. Until now the company does not have a standard for the production, especially in the making of Palembang Crackers dough. The composition of raw materials depends on the expertise of employees in the making of dough position. If the employees in this position is replaced by another employee, the end result is likely to fail. At present, the making of dough position in CV Seruni Snack is a position that requires a specialized skills. The company needs to establish a standard for the production in term of composition for making dough because this position actually does not require any special skills as long as the composition of the raw materials are written clearly.

### **Human Resource Management**

From human resource management, there are three solutions that possible to be implemented in CV Seruni Snack. That solutions are improvement in remuneration system, improvement in leadership practices, and make a job rotation policy.

In the production process, employee engagement is directly related to the employees productivity. If the employees have a high engagement level to the company, the urge arises to do a better job so that the employees will always do the job as well as possible (Indriyatik & Angkojoyo, Tino. 2003: 7). In the present circumstances, employees have low productivity due to low level of employee engagement to the company. One alternative solution to improve the employees productivity is to change the remuneration system to piece rate system. Piece rate remuneration system can be categorized into a pay for performance compensation system. In this system, employees are given a certain target with a standard that has been previously calculated based on experience. When the employees produce products below or equal to the target that had been determined, the employees will receive the minimum wage standard. If the employees can produce more than the target, the company will paid an additional salary of employees in accordance with the amount of excess production.

To apply the piece rate wage system, the company must first set a target of a minimum production per day based on the experience for about a week. The minimum target is calculated after all of the production process is maximized. If the employee can produce more than the target, then the excess is paid based on the performance of the employees.

The leadership practices that implemented by the owner of the company is commanding type. The business owner can not force the employees to follow him as employees themselves did not care and did not have a hope against the company. A leader that needed now is a leader who can evoke a sense of belonging and hope of the employees to the company. Therefore, the five leadership practices that described by Kouzes and Posner (2002) should be implemented because it can emerge a sense of belonging to the company and teamwork in the company. These leadership practices are model the way, inspire a shared vision, challenge the process, enable others to act, encourage the heart.

Another alternative that can be used to solve the problems in CV Seruni Snack is by establishing a good job design. There are five core job characteristics that must be considered in making the job design. That are variety, identity, significance, autonomy, and feedback (Richard Hackman, 1977: 132). That job design should be able to increase variety, identity, significance, autonomy, and feedback.

One important dimension in the job design is the skill variety. Skill variety will make the employee experience meaningfulness of the work. One way to increase the skill variety is job rotation. Appendix 4 describe about the job rotation cycle that can be conducted by the company. The business owner can divide employees into two categories: male and female employees. Some male employees will be placed in the production of babangi and some will work in the frying process while

some female workers will be placed on the production of babangi and some will work in the packaging process. With a program like this, there will be no employee who feels weak and unimportant in the company. In addition, this program also can eliminate mutual envy because of different workloads and salaries.

The number of the employees currently in the production process are eight male and seven female. After the new shaping tools has successfully implemented, the company can put four male and four female employees in the production of babangi, two male employees in the frying process and five employees in the packaging process that can be filled either by male and female employees. The rotation of the employees can be conducted every month. Most of the job in Palembang Crackers plant do not need the specific skill so with a one week on the job training all of the employees can work well in each section.

#### **4. Conclusion**

The problem that faced by CV Seruni Snack is come from the low level of employees' engagement so there were a lot of employees that resigned. The low level of employees engagement is caused by some problem such as bad operation management, inadequate salary, and bad leadership practices. Bad operation management emerged some impact to the employees such as heavy workload and not clear KPI so the employees cannot enjoy their job. Bad operation management also make the capacity of the plant cannot reach the maximum efficiency so the profit will decrease and the company cannot give an adequate salary to the employees.

The solution to improve the business of CV Seruni Snack proposed in this paper are viewed from two aspects, operational and human resource management. One of the solution to improve the employee engagement is by increasing the wages. But the company did not have enough resources to increase the wages. Therefore, the method of production needs to be improved that is by making a new shaping tools. With the new shaping tools, the company can increase production capacity and profitability so that can increase the employees salaries and improve the quality of infrastructure.

In human resource management, the owner must improve the leadership practices. This paper recommends the owner to implement five leadership practices defined by Kouzes and Posner, that are model the way, inspire a shared vision, challenge the process, enable others to act, and encourage the heart. Thus, the engagement level is expected to increase.

#### **Implementation Plan**

##### **Phase 1**

Phase one is a preparation phase. The business owner must think and calculate about the solution and the consequence of the solution that he will take to settle the problem that faced by the company. The business owner can list some alternatives that is applicable. The time that needed by the business owner to running this phase is about three weeks. The business owner also can recruit a vice in the first phase to help him communicate with the employees and implement the improvement. He can search the vice candidate from his friend or through the open recruitment announcement. This searching process will take approximately 1 month.

##### **Phase 2**

The second phase is a communication and discussion phase. The business owner must communicate the change or improvement that the company will take to the employees. The solution alternatives can be communicated to the employees through a forum. The business owner also can open a discussion in that forum.

##### **Phase 3**

Phase three is an implementation action. The first thing that the business owner should implement is an improvement in production method. To implement this solution, the first thing that the business



owner should do is communicate the improvement in the production method plan to all of the employees. The company can conduct a forum in the first day to communicate it all. After that, the business owner need to search the material and the workshop that can make the new shaping tool with the lowest price and the fastest time. After the new shaping tool has been created, it is need some adjustment and adaptation. Adjustment is needed to replace some equipment and the process of the production. The adaptation is needed by the employees because it will change how they work and the production process will be faster.

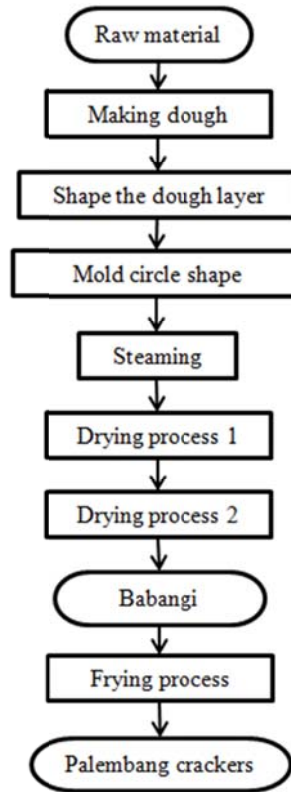
For the side of human resource management, it can be implemented after the new shaping tool successfully implemented. Such as the remuneration system, it need target to run the remuneration system that proposed in this paper. Minimum production target per day should be determined first to determine the amount of incentives that will be given if the employee produce the Palembang Crackers more than the target. The implementation of this remuneration system can be done in a month by setting the target in the first two weeks, review of the system in the next week, and the communication of the new remuneration system in the last week.

Job rotation can be implemented after the new shaping tool has successfully implemented. The business owner must first communicate this policy to all of the employees. The employees do not need the special training for each job because all of the work section in this plant is a job that does not need a specific skill. Beside that, in the existing condition, all of the employees is common to do the job beside their job description based on the condition. The business owner usually ask them to help another employees in another work section that has not enough employees in it. But the company does not has the clear rules about that employee rotation and transfer. Job rotation policy can be carried out simultaneously with the implementation of the remuneration system.

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### Appendix 1 Palembang Crackers Production Process



### Appendix 2 Production per Week in the Period September until December 2012



### Appendix 3 Comparison of Existing and Recommended Method

Parameter	Existing Method	Recommended Method
Capacity	5.122 ton per month	17.922 ton per month
Working capital	Rp 71,655,902.5 per month	Rp 265,251,948 per month
Raw materials	Tapioca starch: 200 kg per day Fish: 6 kg per day Seasoning: 2 kg per day LPG: 4.5 gas holders per day	Tapioca starch: 700 kg per day Fish: 21 kg per day Seasoning: 7 kg per day LPG: 10 gas holders per day
Production speed	197 kg per day	692 kg per day
Employees	15 persons	14 persons
Profit	3.04% per 800 kg babangi	12.24% per 800 kg babangi

### Appendix 4 Job Rotation Cycle

